



To the Shareholders

We are pleased to submit the annual report for our second fiscal year.

This report is a most significant one since it applies to our first full year of operations. During 1970 our activities have largely centred around making technical refinements to our services and, in addition, a major effort was made to market these services. Management has streamlined the organization of your company, expanded its marketing force, opened an Ottawa regional marketing and support centre and at the same time attempted to keep overhead costs as low as possible.

Notwithstanding a generally poor economic climate during 1970, your company was fortunate to have not only held its own but also significantly increased its sales and revenues. This can be attributed to your company's excellent support and system development staff which backs an aggressive, knowledgeable and well trained marketing force.

The past year has been a year of consolidation in the computer industry. Many companies have been offering services aimed at the same market and customer base. This has, naturally, resulted in intense competition in the industry. In order to be successful in the time-sharing computer utility business, it is essential that a company offer a unique system. The Dataline Interactive System is unique in that it is the only time-sharing system available in Canada at this time which offers a truly large scale general purpose digital computer, complete with all commonly used peripheral equipment necessary for the keyboard terminal user.

Since your company commenced operations some sixteen months ago, it has become one of the largest Canadian Interactive time-sharing computer firms in terms of monthly billing. Since your company was not operational throughout the whole of 1969, a comparison of total income for 1969 and 1970 is not meaningful. It is significant, however, that cash losses for 1970 were well within budgeted limits and were approximately 25% less than those incurred in 1969. This is of even more importance when consideration is given to the fact that operating expenses in 1970 were almost double those incurred in 1969. It is encouraging to note that the last three months of 1970 operations resulted in the company achieving an almost break-even position on a cash basis.

The acceptance of our services by customers has resulted in a rapid growth in sales. It is anticipated that this growth will be maintained. It is probable, therefore, that additional computer equipment will have to be installed to meet the needs of the future. The exact timing of and financing for this additional equipment is not yet known.

I wish to take this opportunity to thank our staff for the efforts they have expended in the past and which will be required in the future in order to make your company successful.

On behalf of the Board of Directors

J. C. Paradi / President

February 26, 1971

Balance Sheet

December 31, 1970

(with comparative figures at December 31, 1969)

	4070	4000
Assets	1970	1969
Current:		
Cash and deposit receipt	\$ 33,894	\$ 13,990
Guaranteed investment certificate, at cost plus accrued interest	250,750	
Accounts receivable	147,384	34,689
Establishment Fund held in trust (note 1)		892,633
Prepaid expenses	2,631	3,795
	434,659	945,107
Fixed, at cost:		
Computer and ancillary equipment	1,721,768	1,305,067
Office furniture and fixtures	46,078	25,848
	1,767,846	1,330,915
Less accumulated depreciation (note 2)	316,000	73,842
	1,451,846	1,257,073
Leasehold improvements, less amortization	125,791	79,346
	1,577,637	1,336,419
	\$2,012,296	\$2,281,526
Liabilities and shareholders' equity		
Current:		
Accounts payable and accrued charges	\$ 360,896	\$ 72,329
Shareholders' equity:		
Capital stock (note 3)—		
Authorized:		
1,000,000 common shares without par value		
Issued:		
400,000 shares	2,722,480	2,722,480
Deficit (note 6)	1,071,080	513,283
	1,651,400	2,209,197
	\$2,012,296	\$2,281,526
On behalf of the Board	THE RESERVE OF THE PARTY OF THE	

On behalf of the Board:

J. C. Paradi, Director

J. A. Wright, Director

(See accompanying notes to financial statements)

Auditors' Report

To the Shareholders of Dataline Systems Limited:

We have examined the balance sheet of Dataline Systems Limited as at December 31, 1970 and the statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, January 26, 1971. Clarkson, Gordon & Co.

Chartered Accountants

Statement of Income and Deficit

For the year ended December 31, 1970 (with comparative figures for 1969)

1969
(note 6)
39,404
550,281
78,674
628,955
102,359
526,596
487,192
26,091
513,283

Statement of Source and Application of Funds

For the year ended December 31, 1970 (with comparative figures for 1969)

	1970	1969
Source of funds:		(note 6)
Issue and sale of 300,000 common shares		\$2,712,480
Application of funds:		
Operations—		
Loss for the year	\$ 557,797	487,192
Less expenses not requiring a current outlay of funds: Depreciation and amortization	253,698	78,674
Write-off of pre-operating expenses deferred at December 31, 1968		4,581
	253,698	83,255
Share issue expenses	304,099	403,937 26,091
Purchase of fixed assets	494,916	1,415,093
	799,015	1,845,121
Increase (decrease) in working capital during the year	\$ (799,015)	\$ 867,359

(See accompanying notes to financial statements)

Notes to Financial Statements

December 31, 1970

1. Establishment Fund

The Establishment Fund agreement between the company and Crown Trust Company as trustee dated as of January 15, 1969 was terminated during the year and the balance of the fund transferred by the trustee to the company.

2. Depreciation

Depreciation has been provided on a straight line basis at rates designed to amortize the cost of depreciable assets over their estimated useful lives, which, in the case of the computer and the major portion of its ancillary equipment, is estimated to be seven years.

3. Capital stock

Options were granted in 1969 to certain senior officers of the company to purchase 20,000 common shares at a price of \$13.50 per share of which an option to purchase 10,000 shares was terminated during the year. The remaining option for 10,000 shares is for a term of five years and may be exercised at any time or from time to time during the last three years of its term as to all or any of the optioned shares.

Under the terms of an incentive stock option plan, options were granted in 1970 to certain employees of the company to purchase 4,500 common shares at a price of \$3.00 per share. Each option is for a term of two years and may be exercised at a rate of up to 50% of the total option during the second year of the plan, and up to 100% of the total option at the end of the second year of the plan.

At December 31, 1970 none of the options granted by the company have been exercised. A further 15,500 unissued common shares are reserved for possible future employee options.

4. Commitments

The company has leased premises for up to eight years at an annual rental of \$69,600.

5. Remuneration of directors and senior officers

The aggregate remuneration of directors and senior officers, as such are defined under the requirements of The Business Corporations Act, 1970, was \$103,093, which amount includes remuneration paid or payable to five full-time employees.

6. 1969 operations

The company accepted its computer in late August of 1969 and commenced commercial operations September 1, 1969. Pre-operating expenses incurred prior to that date amounting to \$289,592 (including \$4,581 incurred in 1968) less interest earned of \$74,355 have been included in the loss for the 1969 year.

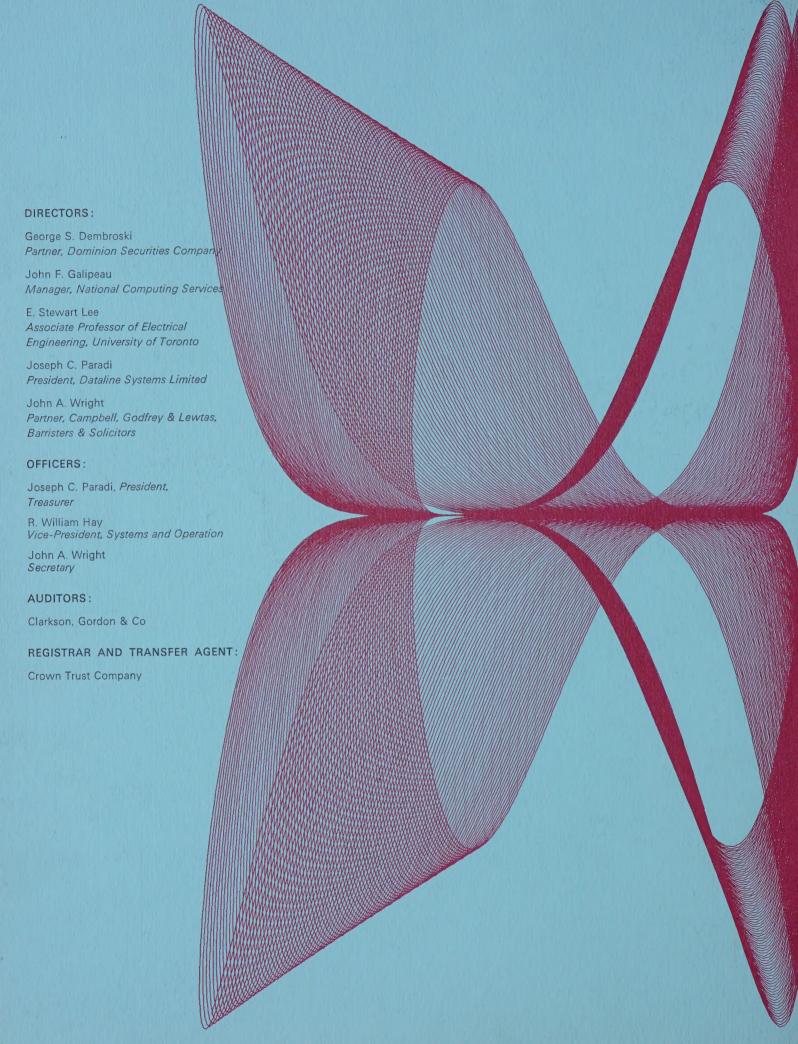
7. Loss per share

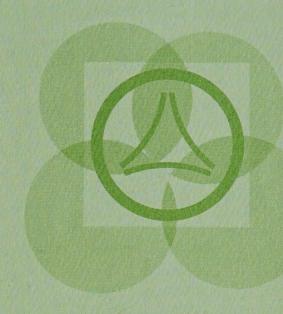
The loss per share, based on the weighted monthly average number of shares outstanding during the year was \$1.39 in 1970 and \$1.47 in 1969.











DATALINE

Interim Report for the six months ended June 30,1970

To the Shareholders of Dataline Systems Limited

The half-year ended June 30, 1970 represents a period of significant achievement for Dataline Systems Limited, in terms of both technical progress and marked increases in revenue.

During the first four months of 1970, January to April, income derived from computer operations was slightly more than triple that obtained during the final four months of the 1969 fiscal year, September to December – the initial period of commercial operations.

An even more accelerated rate of growth prevailed during May and June of this year, the revenue for these two months alone being slightly more than that of the entire first four months of the year.

The considerable amount of thought and energy devoted to the areas of marketing, systems programming, customer support and operations, in order to continually improve the quality and scope of our services and to make them available to a growing community of users has, as expected, generated a gradually increasing momentum in the demand for our services.

Consequently, I am confident that the current upward trend in the sale of our computer services will continue to reflect such efforts.

To fulfill rising work commitments, ten employees were added to the staff during the six-month period from January 1 to June 30, 1970. At the present time, Dataline's total staff numbers 40, of whom ten are marketing representatives.

In order to secure optimum allocation and utilization of the Company's resources – both human and financial – management has set specific aims and objectives and has emphasized the need to establish and review various priorities. As a result, during the second half of 1970, Dataline fully expects to continue to increase its sales and consolidate further its position in the Canadian computer services industry.

Toronto July 30, 1970. John Galipeau, President.

DATALINE SYSTEMS LIMITED

(Incorporated under the laws of Ontario)

Statements of Income and Source and Application of Funds

for the six months ended June 30, 1970

(with comparative figures for the six months ended June 30, 1969) (subject to audit and year-end adjustment)

Statement of Income	1970	1969
Income:	. 10. 13.00	(Note)
Computer time and related charges	\$ 241,862	\$ _
Expenses:		
General, administrative and operating expenses	448,698	176,334
Depreciation and amortization	108,994	3,268
	557,692	179,602
Less interest earned	28,836	49,410
	528,856	130,192
Loss for the six months	\$ 286,994	\$ 130,192

Source and Application of Funds Source of funds:	1970	1969 (Note)
Issue and sale of 300,000 common shares	\$ _	\$2,712,480
Application of funds:		
Loss for the six months Less depreciation and	286,994	130,192
amortization	108,994	3,268
	178,000	126,924
Purchase of fixed assets	387,934	96,498
Share issue expenses		26.091
	565,934	249,513
Increase (decrease) in working	THE PERSON NAMED IN	7 7 10 700
capital during the six months	\$(565,934)	\$2,462,967

Note: As the Company did not commence commercial operations until September 1, 1969, the expenses incurred to June 30 of that year were reported as pre-operating in the

1969 six months' report. All such expenses were subsequently written off in the 1969 annual financial statements.